

**SOUTH CAROLINA
JUDICIAL DEPARTMENT
COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2019**



Independent Accountant's Report On Applying Agreed-Upon Procedures

March 27, 2020

The Honorable Donald W. Beatty, Chief Justice
and
Management of the South Carolina Judicial Department
South Carolina Judicial Department
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Judicial Department (the Department or Branch), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Judicial Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor
Agreed - Upon Procedures Related to the South Carolina Judicial Department (B04)

Cash Receipts/Revenues

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$100,000 and 10% in the Earmarked and Federal Funds.
2. Haphazardly select ten cash receipts transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations in the following general ledger (G/L) accounts: General Fund: G/L accounts 503 – Supplies and Materials, G/L accounts 505 – Travel; and Federal Fund: G/L accounts 502 – Contractual Services.
4. Haphazardly select ten non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Judicial Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Judicial Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Judicial Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select five purchasing card transactions from the Office of the State Comptroller General (CG) listing of purchasing card transactions for fiscal year 2019 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Judicial Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select five employees and inspect supporting documentation during the fiscal year to:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Judicial Department.

For Salaried Employees:

- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
9. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Judicial Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
 10. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Judicial Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

11. Haphazardly select five employees who received taxable subsistence payments and inspect supporting documentation for one haphazardly selected payment during the fiscal year to:
- Agree payment for taxable subsistence to travel reimbursement request.
 - Determine that the employee was paid in accordance with the Judicial Department's policies and procedures and Section 117.20 of the fiscal year 2019 Appropriation Act.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

12. Haphazardly select five journal entries and transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Reporting Packages

13. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

14. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses and reported amounts are reasonable/accurate and all required supplemental information was properly prepared and submitted based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg - Cash and Investments report and/or Judicial Department prepared records.

- Accounts Payable

Determine if reported amounts are reasonable/accurate based on agreement of reporting package totals to the SCEIS Yearend Rptg - Prior Year Payables with Vendor and/or Judicial Department prepared records. In addition, haphazardly select five payable transactions to determine if reported amounts were properly identified, classified, and reported on the reporting package.

- Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package

Determine if responses and amounts are reasonable/accurate based on inspection of invoices, contractual agreements, and/or any other supporting records.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Judicial Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding

Subsequent Events Questionnaire - Compensated Absences - The Department responded that it had no late submissions of leave; however, we determined the Department had both late submissions of leave and late leave cancellations resulting in the Department's compensated absence liability balance being understated by approximately \$3,250.

Management's Response

During the reporting package process the Judicial Branch received the following communication from the Comptroller General's Office:

The CAFR team will be sending the Accrued Compensated Absence Reports this afternoon and tomorrow. These reports will be sent via secure email and will look different than the emails you normally receive. Please do not delete these secure emails. They will be needed to verify your compensated absences records and will be reviewed by the State Auditor's Office during their procedures they perform over your respective offices. But, like last year please note that reporting package 3.17 (Payroll Liabilities) is no longer required to be submitted during the year-end reporting package process. Additionally, please contact SCEIS with any necessary changes.

Based on these instructions, we made the necessary changes in SCEIS based on our review of the report. We continued to make changes in SCEIS as revisions to leave balances were needed. According to the communication we were only required to make adjustments in SCEIS for leave balances prior to June 30, we are not required to report this information to the Comptroller General's Office.

We answered no to this question since we had made the adjustments in SCEIS as the initial communication instructed and thought this question was looking for items not corrected in SCEIS. The initial instructions seem to contradict this subsequent events question.

The Judicial Branch suggests that the Comptroller General's Office and the Office of the State Auditor work together to ensure that all Reporting Package and other instructions provided at year-end are clear and provide guidance for completing the packages. The Judicial Branch has communicated this to the Comptroller General's Office, as it relates to the issue described above.

Composite Reservoir Accounts

15. Obtain a listing of the Judicial Department's composite reservoir accounts and confirm with management that the listing is complete.
16. For the Judicial Department's new composite reservoir account, inspect applicable documentation and records authorizing the account.

Composite Reservoir Accounts (Continued)

17. Obtain fiscal year monthly reconciliations for each composite reservoir account and for a total of three of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
18. Haphazardly select and inspect seven composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Judicial Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
19. Haphazardly select and inspect two composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Judicial Department's policies and procedures and State regulations, were bona fide disbursements of the Judicial Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of these procedures.

E-Flex Filing System

20. For two haphazardly selected months, obtain the E-Flex filing system's monthly records (i.e. SC.Gov reports, E-Filing Financial Summaries, and/or other Judicial Department prepared records) and agree amounts to the SCEIS trial balance (G/L Account 4110240002 – E-Filing Technology Fees).
21. Obtain the Judicial Department's plan for development and completion of the E-Flex filing system. Through inquiry, document the progress and status of the intangible asset at the end of the fiscal year and determine if the posted financial activity for the asset under construction was properly tracked and recorded in SCEIS.

Finding

We determined that \$8,100 of training costs were included as part of an asset under construction. According to the CG's Policies and Procedures Manual, costs related to application user training should be expensed as incurred and not capitalized.

Management's Response

The training costs were charged to the proper fund and G/L account for the Branch's purposes, related to expending the funds according to how they were awarded in the Appropriation Act. The asset under construction function in SCEIS is used to accumulate costs to be capitalized when the project is complete; currently the training costs are marked to be capitalized by its WBS element. The Judicial Branch will ensure that a correction is made, when the final reconciliation is performed prior to closing the asset under construction and capitalizing the asset.

Personal Property

22. Confirm that an inventory of Judicial Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Law 10-1-140.

We found no exceptions as a result of this procedure.

Governance, Risk and Compliance (GRC) SCEIS Module

23. Select one control identified through the SCEIS GRC system that was in place during fiscal year 2019 and inspect mitigating control documentation. Confirm with management the control is operating as designed.

We found no exceptions as a result of this procedure.

Appropriation Act

24. Confirm compliance with the selected agreed-upon Judicial Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.
25. Determine if the Judicial Department appropriately spent non-recurring funds in compliance with Proviso 118.15 of the fiscal year 2019 Appropriation Act through inquiry and inspection of the Judicial Department's supporting documentation and records. Additionally, confirm that the related activity was recorded correctly in the SCEIS accounting system.

We found no exceptions as a result of these procedures.